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MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA

REPORT ON AUDIT

Conducted Under Contract By  
Charles Bailly & Company  
Certified Public Accountants

Two Years Ended June 30, 1986



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MONTANA  
STATE CAPITOL • HELENA

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MILES COMMUNITY COLLEGE

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET  
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI  
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT  
LEGISLATIVE AUDITOR

December 1986

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of Miles Community College for  
the two fiscal years ended June 30, 1986.

The audit was conducted by Charles Bailly & Company under a contract  
between the firm and our office. The comments and recommendations  
contained in this report represent the views of the firm and not  
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is  
included in the back of the audit report.

Respectfully submitted,

MONTANA STATE LIBRARY  
1515 E. 6th AVE.  
HELENA, MONTANA 59620

A handwritten signature in dark ink, appearing to read "Scott A. Seacat".  
Scott A. Seacat  
Legislative Auditor





MILES COMMUNITY COLLEGE

APPOINTED AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

		<u>Term Expires</u>
Ted Schwinden, Governor*		1988
Ed Argenbright, Superintendent of Public Instruction*		1988
Dennis Lind, Chairman	Missoula	1989
Bert Hurwitz, Vice-Chairman	White Sulphur Springs	1993
Scott Birkenbuel, Student Regent	Bozeman	1987
Jeffrey Morrison	Helena	1987
Elsie Redlin	Lambert	1991
Beatrice McCarthy	Anaconda	1990
Jim Kaze	Havre	1992
*Ex officio members		

COMMISSIONER OF HIGHER EDUCATION

Dr. Carroll Krause Commissioner of Higher Education

BOARD OF TRUSTEES

Eilleen Carlson, President	1989
Milton Benge, Vice President	1988
Paul Mottram, Secretary	1988
Duane Mathison	1987
Ken Bowar	1988
James P. Lucas	1989
Jessica Stickney	1987

ADMINISTRATION

Judson H. Flower, Ed.D.	President
Robert E. Hokom, Ed.D.	Dean, Instructional Services
John C. Koch, Ph.D.	Dean, Extended Community Services
Dale E. Oberlander	Registrar
W. Wayne Muri	Business Manager
Sharon Lofland	Comptroller



MILES COMMUNITY COLLEGE

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	<u>Page</u>
<u>Recommendation #1</u> - We recommend that the College update and reconcile the subsidiary ledger of fixed assets.	8
Agency Response: Concur. See page 25.	
<u>Recommendation #2</u> - We recommend that the College record the cost of fixed assets in their general ledger.	8
Agency Response: Concur. See page 25.	
<u>Recommendation #3</u> - We recommend that the College record the balance of long-term debt in their general ledger.	8
Agency Response: Concur. See page 25.	
<u>Recommendation #4</u> - We recommend that the College reconcile the federal cash on hand or amend its report of expenditures (Form 868) for the Student Aid programs.	8
Agency Response: Concur. See page 25.	
<u>Recommendation #5</u> - We recommend that the \$10,000 of excess cash in the NDSL program be returned to the Department of Education.	9
Agency Response: Concur. See page 25.	
<u>Recommendation #6</u> - We recommend that the College invest idle cash held in the NDSL Program.	9
Agency Response: Concur. See page 25.	
<u>Recommendation #7</u> - We recommend that excess cash in the NSL program be returned to the Department of Health and Human Services.	9
Agency Response: Concur. See page 25.	
<u>Recommendation #8</u> - We recommend that the College attempt to reduce delinquencies on NSL loans below five percent as allowed by HHS guidelines.	9
Agency Response: Concur. See page 25.	
<u>Recommendation #9</u> - We recommend that the College acquire computer software which would prepare a combined trial balance.	10
Agency Response: Concur. See page 25.	



MILES COMMUNITY COLLEGE

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #10</u> - We recommend that the College post all adjustments to the general ledger.	10
Agency Response: Concur. See page 25.	
<u>Recommendation #11</u> - We recommend that the minutes of the Board of Trustees include approval for all significant accounts receivable write-offs.	10
Agency Response: Concur. See page 25.	
<u>Recommendation #12</u> - We recommend that the Registrar maintain all listings of student enrollments.	10
Agency Response: Concur. See page 26.	
<u>Recommendation #13</u> - We recommend that copies of all class listings be maintained.	11
Agency Response: Concur. See page 26.	





MILES COMMUNITY COLLEGE

GENERAL

We performed a financial/compliance audit of Miles Community College for the fiscal years ending June 30, 1985 and June 30, 1986. Included was an audit of the College's contracts and grant's and financial aid programs for the two fiscal years ended June 30, 1986. The College participates in the following federal financial aid programs: the National Direct Student Loan (NDSL) Program, the College Work Study (CWS) Program, the Supplemental Educational Opportunity Grant (SEOG) Program, The Guaranteed Student Loan (GSL) Program, the Pell Grant Program and the Nursing Student Loan (NSL) Program. The College also receives student financial aid funds from State Student Incentive Grants and other private sources.

The objectives of our audits were to: (1) determine if the financial statements of the College present fairly its financial position and results of operations for the fiscal years ended June 30, 1985 and June 30, 1986; (2) determine if the College complied with applicable state and federal laws and regulations; (3) make recommendations for the improvement of management and internal controls; and (4) determine whether prior audit recommendations have been effectively implemented.

Our audits of the National Direct Student Loan, College Work Study, Supplemental Educational Opportunity Grants, Guaranteed Student Loan, and Pell Grants, were performed in accordance with the financial and compliance elements of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," 1981, and the audit guide prescribed by the U.S. Department of Education, March, 1984.

Our audits of the Nursing Student Loan programs were performed in accordance with the financial and compliance elements of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" 1981, and procedures prescribed by the U.S. Department of Health and Human Services in books two and three of the student financial aid guidelines.

During our audits we also performed tests and procedures to determine if the College was in compliance with certain applicable state regulations. No instances of non-compliance were found.

We thank the Miles Community College staff for their cooperation and assistance during our audit.





MILES COMMUNITY COLLEGE

BACKGROUND

Miles Community College at Miles City, Montana was founded in 1939 under authority of legislation enacted by the Montana Legislative Assembly earlier that same year. For almost twenty years the college, then titled Custer County Junior College, operated out of a few rooms in the local public high school. In 1957 the college moved into the former Milwaukee RR Depot Building, which was constructed after passage of a bond issue by county voters. The new building is located on the present campus site, which was donated to the college by the American Legion.

A resolution passed by the joint College-High School Board in January, 1970, established an independent junior college district. On April 4, 1970, voters of the district elected the first independent Board of Trustees for the college. During academic year 1971-72 the college purchased a Vo-Tech Building adjacent to the campus, and completed construction of a new Student Center.

In December, 1971, Miles Community College was granted full accreditation by the Northwest Association of Schools and Colleges. The fifth year review by the Northwest Association continued the full accreditation of the College and reaffirmed the quality of the programs, thereby insuring the easy transfer of credits to other colleges.

A grant of 1.5 million dollars from the Montana Coal Board in 1977 enabled the College to construct a new vocational building and library-classroom addition.

Construction of a physical recreation complex was completed in November, 1980. This facility includes a large gymnasium, four racquetball-handball courts, and an exercise deck with weight machines.

The college has access to a 46-unit coed dormitory which was ready for occupancy in the Fall of 1981.



MILES COMMUNITY COLLEGE  
FINDINGS AND RECOMMENDATIONS

Internal Accounting Control

We have examined the financial statements of Miles Community College for the years ended June 30, 1986 and 1985, and have issued our report thereon dated September 19, 1986. As part of our examination, we made a study and evaluation of the College's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the College's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Miles Community College is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Miles Community College taken as a whole. However, our study and evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Miles Community College may occur and not be detected within a timely period.

Segregation of Incompatible Duties

Three persons have the primary responsibility for all of the accounting and financial and data processing duties. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in your College. We recognize that your College probably is not large enough to make the employment of additional persons for the purpose of segregating duties practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention.





MILES COMMUNITY COLLEGE

FINDINGS AND RECOMMENDATIONS (Continued)

Property and Equipment Controls

As a result of the prior audit, the College developed a detailed subsidiary ledger of fixed assets. The schedule presented each item of equipment grouped by location. Current acquisitions of equipment have not been added to the schedule and the schedule has not been balanced to the general ledger.

Recommendation #1

We recommend that the College update and reconcile the subsidiary ledger of fixed assets.

Property and Equipment Controls

The College does not record the cost of fixed assets in the general ledger.

Recommendation #2

In order to strengthen controls over fixed assets and in order to implement the above recommendation, the College should record the cost of fixed assets presently owned, as well as future acquisitions in the general ledger.

Long-Term Liabilities

The College also does not record its long-term liabilities in the general ledger.

Recommendation #3

In order to properly account for note and mortgage payments, mandatory transfers, and new borrowings, we recommend long-term liabilities be included in the general ledger.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the June 30, 1986 and June 30, 1985, financial statements, and do not affect our report on these financial statements dated September 19, 1986.

The preceding paragraphs are intended solely for the use of management of Miles Community College and the State of Montana and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the State of Montana, is a matter of public record.

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The following are not material weaknesses, but are suggestions which could be considered for changes or improvements.



MILES COMMUNITY COLLEGE

FINDINGS AND RECOMMENDATIONS (Continued)

Student-Aid Programs

Report of Expenditures (Form 868)

The College was unable to reconcile federal cash on hand at June 30, 1986, to the amount reported in its Report of Expenditures.

Recommendation #4

The College should either reconcile federal cash on hand at June 30, 1986, or amend its Report of Expenditures. In the future, federal cash on hand should agree to the amount reported on the Report of Expenditures.

NDSL Excess Cash

The College has excess cash of \$10,000 in the NDSL program.

Recommendation #5

The College should return \$10,000 to the Department of Education.

Idle Cash in NDSL Program

The College has not invested the idle cash in the NDSL Program in an interest-bearing account.

Recommendation #6

Idle cash in the NDSL Program should be invested in an interest-bearing account.

Excess Cash in NSL Program

The College had excess cash of \$12,000 and \$10,000 for the years ended June 30, 1985 and 1986, respectively. Both amounts have been repaid to HHS.

Recommendation #7

In the future as the outstanding loans are collected, the Institution will continue to have excess cash. Each year the excess cash should be returned to HHS until the program is discontinued.

Delinquency Rate Exceeds 5% in NSL Program

The College had a delinquency rate of 33% for the year ended June 30, 1985 and a delinquency rate of 8% for the year ended June 30, 1986. Percentages for both years exceed the 5% rate allowed by HHS guidelines.

Recommendation #8

The College should continue its collection efforts which have lowered the default rate from 43% (FY 6/30/83) to the current level of 8%.





MILES COMMUNITY COLLEGE

FINDINGS AND RECOMMENDATIONS (Continued)

Computer Accounting System

Combined Trial Balance

At present, the College's computer system does not prepare a combined trial balance.

Recommendation #9

For ease of reporting, we recommend that the College acquire computer software which would prepare a combined trial balance.

Prior Year Adjustments

Several of the prior year's adjustments were not posted to the general ledger.

Recommendation #10

In order to present accurate monthly financial reports to the trustees, all adjusting entries should be posted to the general ledger, except where specified to the contrary.

Trustee Minutes

Bad Debt Write-Off

During the audit period, approximately \$12,000 owed by Little Big Horn College for accreditation fees was deemed to be uncollectible and was written-off.

Recommendation #11

The Trustees have final responsibility for all bad debt write-offs, and therefore, we recommend that the minutes of the Board of Trustees include approval for all significant accounts receivable write-offs.

Student Enrollment Records

Student Enrollment Listings

For the years tested, there were no student listings maintained for courses listed in report "C" of the enrollment summary filed with the State.

Recommendation #12

We recommend that the Registrar maintain all listings of student enrollment.



MILES COMMUNITY COLLEGE

FINDINGS AND RECOMMENDATIONS (Continued)

Master Course Listings

The Spring 1986 master course listing could not be located.

Recommendation #13

We recommend that copies of all class listings be maintained.

This letter does not express an opinion on the College's overall internal control system. It does, however, include items which we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

CHARLES BAILLY & COMPANY

Great Falls, Montana  
September 19, 1986



# Charles Bailly & Company

Certified Public Accountants

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Great Falls, Montana 59401  
Telephone (406) 727-4004

Offices in Minnesota,  
Montana, North Dakota  
and South Dakota  
Associates in principal cities  
of United States, Canada,  
Mexico, Europe  
and Asia

The Board of Trustees  
Miles Community College  
Miles City, Montana

We have examined the balance sheets of Miles Community College as of June 30, 1986 and 1985 and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Miles Community College at June 30, 1986 and 1985 and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CHARLES BAILLY & COMPANY

Great Falls, Montana  
September 19, 1986



MILES COMMUNITY COLLEGE

BALANCE SHEETS

JUNE 30, 1986 AND 1985

(Page 1 of 2)

ASSETS

LIABILITIES AND FUND BALANCES

	1986	1985		1986	1985
			CURRENT FUNDS		
			Unrestricted		
Cash - Note 2	\$ 61,773	\$ 6,270	Accounts payable	\$ 33,163	\$ 14,262
Receivables-			Cash overdraft	-	34,778
Taxes, less allowance for doubtful accounts of			Deferred revenue	13,232	15,011
\$2,883 in 1986 and \$2,493 in 1985	141,268	122,136	Accrued employee leave	62,105	59,559
Other	6,041	5,705	Fund balance	143,065	51,544
Inventory	28,178	31,432			
Prepaid expenses	14,305	9,611	Total unrestricted	251,565	175,154
Total unrestricted	251,565	175,154			
			Restricted		
Cash - Note 2	4,216	-	Accounts payable	2,744	4,572
Accounts receivable	3,879	4,344	Cash overdraft	-	58,590
Grants receivable	15,708	90,721	Accrued employee leave	1,937	1,937
Total restricted	23,803	95,065	Fund balance	19,122	29,966
			Total restricted	23,803	95,065
Total current funds	\$ 275,368	\$ 270,219	Total current funds	\$ 275,368	\$ 270,219
			STUDENT LOAN FUNDS		
Cash - Note 2	\$ 2	\$ 1,089	Accounts payable	\$ 2,760	\$ 334
Cash in escrow - Restricted	25,962	36,881	Fund balances (deficit)-		
Loans to students - Note 3	64,709	62,755	U.S. Government grants refundable	96,536	106,536
			College funds-		
			Restricted	13,129	13,129
			Unrestricted	(21,752)	(19,274)
Total student loan funds	\$ 90,673	\$ 100,725	Total student loan funds	\$ 90,673	\$ 100,725

(Continued)





## MILES COMMUNITY COLLEGE

BALANCE SHEETS

JUNE 30, 1986 AND 1985

(Page 2 of 2)

ASSETSLIABILITIES AND FUND BALANCES

	<u>1986</u>	<u>1985</u>		<u>1986</u>	<u>1985</u>
			<u>PLANT FUNDS</u>		
			<u>Unexpended</u>		
Cash - Note 2	\$ -	\$ -	Deferred revenue	\$ 1,206	\$ 1,206
Total unexpended	-	-	Fund balance (deficit)	(1,206)	(1,206)
			Total unexpended	-	-
			<u>Retirement of Indebtedness</u>		
Cash - Note 2	-	-	Cash overdraft	27,037	22,339
Total retirement of indebtedness	-	-	Fund balance (deficit)	(27,037)	(22,339)
			Total retirement of indebtedness	-	-
			<u>Investment in Plant</u>		
Land and improvements - Note 4	204,298	204,298	Accrued interest payable	1,890	1,890
Buildings and improvements - Note 4	3,679,619	3,679,619	Notes payable - Note 4	1,003,003	1,044,934
Equipment - Note 4	855,145	736,148	Net investment in plant	4,047,030	3,864,302
Library books and films	312,861	291,061			
Total investment in plant	5,051,923	4,911,126	Total investment in plant	5,051,923	4,911,126
Total plant funds	\$ 5,051,923	\$ 4,911,126	Total plant funds	\$ 5,051,923	\$ 4,911,126
			<u>AGENCY FUNDS</u>		
Cash - Note 2	\$ 29,170	\$ 17,516	Deposits held in custody for others	\$ 29,170	\$ 17,516
Total agency funds	\$ 29,170	\$ 17,516	Total agency funds	\$ 29,170	\$ 17,516

See notes to financial statements.



MILES COMMUNITY COLLEGE

STATEMENTS OF CHANGES IN FUND BALANCES

YEARS ENDED JUNE 30, 1986 AND 1985

	1986						1985					
			Plant Funds						Plant Funds			
	Current Funds		Student Loan Funds	Unexpended	Retire- ments Indebted- ness	Invest- ment in Plant	Current Funds		Student Loan Funds	Unexpended	Retire- ments Indebted- ness	Invest- ment in Plant
	Unrestricted	Restricted					Unrestricted	Restricted				
REVENUES AND OTHER ADDITIONS												
Unrestricted current fund revenues	\$ 2,095,762	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,206,451	\$ -	\$ -	\$ -	\$ -	\$ -
Gifts, grants, and contracts, restricted	-	636,298	-	-	18,600	-	-	489,428	1,476	-	22,000	-
Local appropriations	-	-	-	-	-	-	-	-	-	-	20,660	-
Student fees	-	-	-	32,047	-	-	-	-	-	32,902	-	-
Interest on loans receivable	-	-	798	-	-	-	-	-	2,912	-	-	-
Expended for plant facilities (charged to current fund expenditures)	-	-	-	-	-	140,797	-	-	-	-	-	110,708
Retirement of indebtedness	-	-	-	-	-	41,931	-	-	-	-	-	69,441
Total revenues and other additions	<u>2,095,762</u>	<u>636,298</u>	<u>798</u>	<u>32,047</u>	<u>18,600</u>	<u>182,728</u>	<u>2,206,451</u>	<u>489,428</u>	<u>4,388</u>	<u>32,902</u>	<u>42,660</u>	<u>180,149</u>
EXPENDITURES AND OTHER DEDUCTIONS												
Educational and general expenditures	1,616,917	637,367	-	-	-	-	1,857,048	479,538	-	-	-	-
Auxiliary enterprise expenditures	360,541	-	-	-	-	-	367,263	-	-	-	-	-
Refund to grantors	-	-	10,000	-	-	-	-	-	12,000	-	-	-
Administrative and collection costs	-	-	3,276	-	-	-	-	-	7,085	-	-	-
Incurment of debt	-	-	-	-	-	-	-	-	-	-	-	26,782
Retirement of indebtedness	-	-	-	-	41,931	-	-	-	-	-	69,441	-
Interest on indebtedness	-	-	-	-	49,972	-	-	-	-	-	49,713	-
Total expenditures and other deductions	<u>1,977,458</u>	<u>637,367</u>	<u>13,276</u>	<u>-</u>	<u>91,903</u>	<u>-</u>	<u>2,224,311</u>	<u>479,538</u>	<u>19,085</u>	<u>-</u>	<u>119,154</u>	<u>26,782</u>
TRANSFERS AMONG FUNDS - ADDITIONS/ (DEDUCTIONS)												
Mandatory:												
Principal and interest	(26,783)	(9,775)	-	(32,047)	68,605	-	(6,975)	(30,260)	-	(43,953)	81,188	-
Total transfers	<u>(26,783)</u>	<u>(9,775)</u>	<u>-</u>	<u>(32,047)</u>	<u>68,605</u>	<u>-</u>	<u>(6,975)</u>	<u>(30,260)</u>	<u>-</u>	<u>(43,953)</u>	<u>81,188</u>	<u>-</u>
NET INCREASE (DECREASE) IN FUND BALANCE	91,521	(10,844)	(12,478)	-	(4,698)	182,728	(24,835)	(20,370)	(14,697)	(11,051)	4,694	153,367
FUND BALANCE (DEFICIT), BEGINNING	<u>51,544</u>	<u>29,966</u>	<u>100,391</u>	<u>(1,206)</u>	<u>(22,339)</u>	<u>3,864,302</u>	<u>76,379</u>	<u>50,336</u>	<u>115,088</u>	<u>9,845</u>	<u>(27,033)</u>	<u>3,710,935</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 143,065</u>	<u>\$ 19,122</u>	<u>\$ 87,913</u>	<u>\$ (1,206)</u>	<u>\$ (27,037)</u>	<u>\$ 4,047,030</u>	<u>\$ 51,544</u>	<u>\$ 29,966</u>	<u>\$ 100,391</u>	<u>\$ (1,206)</u>	<u>\$ (22,339)</u>	<u>\$ 3,864,302</u>

See notes to financial statements.



## MILES COMMUNITY COLLEGE

## STATEMENTS OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

YEARS ENDED JUNE 30, 1986 AND 1985

	June 30, 1986			June 30, 1985		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
REVENUES						
Tuition and fees	\$ 218,820	\$ 820	\$ 219,640	\$ 181,524	\$ -	\$ 181,524
State appropriations	865,002	-	865,002	1,068,407	-	1,068,407
Local appropriations	781,883	-	781,883	714,682	-	714,682
Federal grants and contracts	-	519,077	519,077	-	380,244	380,244
State grants and contracts	-	68,016	68,016	-	111,541	111,541
Private gifts, grants and contracts	-	54,616	54,616	-	12,986	12,986
Investment income	12,116	323	12,439	14,345	255	14,600
Sales and services of auxiliary enterprises	204,387	-	204,387	202,280	-	202,280
Other sources	13,554	4,290	17,844	25,213	4,772	29,985
Total current revenues	2,095,762	647,142	2,742,904	2,206,451	509,798	2,716,249
EXPENDITURES AND MANDATORY TRANSFERS						
Educational and general-						
Instruction	709,688	37,617	747,305	882,843	61,273	944,116
Public service	23,195	180,906	204,101	22,133	64,880	87,013
Academic support	163,325	-	163,325	199,622	2,797	202,419
Student services	136,054	-	136,054	155,328	-	155,328
Institutional support	342,841	74,586	417,427	334,264	108,924	443,188
Operation and maintenance of plant	195,448	-	195,448	224,201	3,764	227,965
Scholarships and fellowships	46,366	344,258	390,624	38,657	237,900	276,557
Educational and general expenditures	1,616,917	637,367	2,254,284	1,857,048	479,538	2,336,586
Mandatory transfers for principal and interest	26,783	9,775	36,558	6,975	30,260	37,235
Total educational and general	1,643,700	647,142	2,290,842	1,864,023	509,798	2,373,821
Auxiliary enterprises expenditures	360,541	-	360,541	367,263	-	367,263
Total expenditures and mandatory transfers	2,004,241	647,142	2,651,383	2,231,286	509,798	2,741,084
OTHER DEDUCTIONS-						
Excess of restricted expenditures over restricted receipts	-	(10,844)	(10,844)	-	(20,370)	(20,370)
NET INCREASE (DECREASE) IN FUND BALANCES	\$ 91,521	\$ (10,844)	\$ 80,677	\$ (24,835)	\$ (20,370)	\$ (45,205)

See notes to financial statements.





MILES COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1986 AND 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting periods and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest; and (3) as transfers of a nonmandatory nature for all other cases.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

The common characteristics of the funds contained in the various fund groups are as follows:

Current funds - The current funds group includes economic resources expendable in performing the primary objectives of the College. The current funds group has two distinct subgroups: unrestricted funds, which have no expenditure restrictions, and restricted funds, which have expenditure restrictions. Restricted current funds are available for financing current operations, but limited by external donor's and funding agencies to specific purposes.





MILES COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1986 AND 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting (continued)

Student loan funds - The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by private and university sources with the majority of the funds provided by the federal government.

Plant funds - Plant funds are separated into three subgroups: Unexpended plant fund, which is for the acquisition of long-term institutional assets; Retirement of indebtedness, which is for the servicing and retirement of indebtedness; and Investment in plant, which contains the cost of long-term institutional assets and related liabilities.

Agency funds - Agency funds account for funds held in a fiduciary or custodian capacity for individuals, faculty, staff and student organizations.

Inventory

Inventory, which consists of books and supplies in the bookstore, is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of donated property. Depreciation on physical plant and equipment is not recorded.

Deferred Revenues

Summer school tuition and fee collections are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

2. INVESTMENTS

Substantially all cash of the College is administered through the Custer County Treasurer's office. The College entered into an agreement with Custer County to have cash on deposit invested under the County's repurchase agreement. The College's agreement with the County requires the County to make distributions of interest income to Miles Community College monthly, based on the end of the month cash balance of the College. The College is required to pay an administrative fee to the County in the amount of three percent of the interest income received.



MILES COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1986 AND 1985

3. LOANS TO STUDENTS

Loans to students consist of the following:

	<u>1986</u>	<u>1985</u>
National Direct Student Loans (NDSL)	\$ 46,764	\$ 40,660
Nursing Student Loans (NSL)	15,025	20,530
Emergency Loans	<u>2,920</u>	<u>1,565</u>
	<u>\$ 64,709</u>	<u>\$ 62,755</u>

4. NOTES PAYABLE

Notes payable consists of:

	<u>1986</u>	<u>1985</u>
5% mortgage payable to the Farmers Home Administration, due in monthly installments of \$4,833, including interest, to January 2011, secured by land	\$ 812,239	\$ 829,269
3% mortgage payable to the Department of Housing and Urban Development, due in semi-annual payments, ranging from \$1,700 to \$4,500, plus interest, to July 2012, secured by real estate	169,000	172,800
11% contract payable, due in monthly installments of \$581, including interest, to May 1990, secured by the telephone system	21,764	26,104
10% contract payable, due in variable semi-annual payments, secured by the computer system	-	16,086
Contract payable, due in monthly installments of \$338, secured by equipment	<u>-</u>	<u>675</u>
	<u>\$1,003,003</u>	<u>\$1,044,934</u>

Notes payable maturities are as follows:

1987	\$ 26,703
1988	28,360
1989	30,028
1990	30,748
1991	26,468
Later years	<u>860,696</u>
	<u>\$ 1,003,003</u>



MILES COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1986 AND 1985

5. PENSION AND RETIREMENT FUND COMMITMENTS

All full time College employees participate in one of two pension plans.

Teachers' Retirement System:

Faculty members are covered under the State of Montana Teachers' Retirement System. At June 30, 1986 and 1985 all eligible employees were active in this plan. State law determines the contributions to be made and the benefits to be paid. The contributions are: 7.044% of compensation by the member and 7.423% and 7.23% for the years ended June 30, 1986 and 1985, respectively, by the College. Miles Community College's contributions for 1986 and 1985 were \$64,843 and \$72,828, respectively, which represents approximately .34% to total employer contributions of all participating state agencies. At July 1, 1984 the actuarial present value of credited projected benefits was \$1,181,941,493 and net assets available for benefits was \$390,093,608. The actuarial present value of vested and nonvested accrued benefits is not available. The assumed rate of return used in determining the actuarially computed value of accrued benefits was 8%.

State of Montana Public Employees Retirement System:

All other full-time employees are eligible for the Public Employees Retirement System. At June 30, 1986 and 1985 all eligible College employees were active in the plan. This plan is administered by the State of Montana. Contribution rates, currently 6% of gross pay by the employee and 6.41% by the College, are set by the State of Montana. Miles Community College's contributions for 1986 and 1985 were \$19,323 and \$20,234, respectively, which represents .07% of total employer contributions of all participating state agencies. At July 1, 1986 the actuarial present value of credited projected benefits was \$1,202,123,897 and net assets available for benefits were \$558,939,899. The actuarial present value of vested and nonvested accrued benefits is not available. The assumed rate of return used in determining the actuarially computed value of accrued benefits was 7%.

6. RELATED PARTY TRANSACTIONS

The Miles Community College Endowment Corporation is a separate corporation formed to promote Miles Community College. The Endowment Corporation has pledged to maintain a \$225,000 reserve as additional collateral for the College's mortgage payable to the Farmes Home Administration.

The College receives revenue from the Endowment Corporation which is used to retire indebtedness. Revenue for the years ended June 30, 1986 and 1985, was \$18,600 and \$22,000, respectively.





# Charles Bailly & Company

Certified Public Accountants

The Board of Trustees  
Miles Community College  
Miles City, Montana

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CHARLES BAILLY & COMPANY

Great Falls, Montana  
September 19, 1986





MILES COMMUNITY COLLEGE

SCHEDULE OF STUDENT FULL-TIME EQUIVALENTS

YEARS ENDED JUNE 30, 1986 AND 1985

<u>Quarter</u>	<u>June 30, 1986</u>			<u>June 30, 1985</u>		
	<u>Main Campus</u>	<u>Exten- sions</u>	<u>Total</u>	<u>Main Campus</u>	<u>Exten- sions</u>	<u>Total</u>
<u>Summer</u>						
Student FTE						
Unrestricted	41	0	41	34	9	43
Student FTE						
Restricted	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>3</u>	<u>3</u>
Total Student FTE	<u>42</u>	<u>0</u>	<u>42</u>	<u>34</u>	<u>12</u>	<u>46</u>
<u>Fall</u>						
Student FTE						
Unrestricted	409	13	422	427	29	456
Student FTE						
Restricted	<u>3</u>	<u>0</u>	<u>3</u>	<u>3</u>	<u>8</u>	<u>11</u>
Total Student FTE	<u>412</u>	<u>13</u>	<u>425</u>	<u>430</u>	<u>37</u>	<u>467</u>
<u>Winter</u>						
Student FTE						
Unrestricted	426	19	445	424	25	449
Student FTE						
Restricted	<u>5</u>	<u>17</u>	<u>22</u>	<u>3</u>	<u>7</u>	<u>10</u>
Total Student FTE	<u>431</u>	<u>36</u>	<u>467</u>	<u>427</u>	<u>32</u>	<u>459</u>
<u>Spring</u>						
Student FTE						
Unrestricted	411	13	424	387	23	410
Student FTE						
Restricted	<u>5</u>	<u>7</u>	<u>12</u>	<u>3</u>	<u>15</u>	<u>18</u>
Total Student FTE	<u>416</u>	<u>20</u>	<u>436</u>	<u>390</u>	<u>38</u>	<u>428</u>



MILES COMMUNITY COLLEGE

SCHEDULE OF GRANTS AND CONTRACT EXPENDITURES

YEARS ENDED JUNE 30, 1986 AND 1985

(Page 1 of 2)

<u>Grant</u>	<u>Authorized</u>	<u>EXPENDITURES</u>	
		<u>1986</u>	<u>1985</u>
<u>Federal Grants</u>			
Pell	\$ 280,155	\$ 280,054	\$ -
Pell	171,415	-	171,415
Title III	164,369	91,720	-
Title III	144,841	-	140,121
College Work Study	9,367	9,367	-
College Work Study	7,839	-	7,839
SEOG - Initial	16,168	16,168	-
SEOG - Initial	16,042	-	16,042
SEOG - Continuing	8,600	8,600	-
SEOG - Continuing	8,726	-	8,725
Adult Basic Education	12,780	12,780	-
Adult Basic Education	10,422	-	10,422
Retired Senior Volunteer Program - Wolf Point	20,328	20,328	-
Retired Senior Volunteer Program - Wolf Point	20,642	-	20,642
Retired Senior Volunteer Program - Baker	16,495	16,495	-
Retired Senior Volunteer Program - Baker	16,948	-	16,948
Retired Senior Volunteer Program - Miles City	11,472	11,472	-
Retired Senior Volunteer Program - Miles City	7,656	-	7,656
OPI - Library	16,500	16,500	-
OPI - Photo Lab	29,060	29,060	-
OPI - Health Care Aide	14,439	14,439	-
OPI - Small Business Development	16,300	16,045	-
OPI - Miscellaneous	7,059	-	4,213

(Continued)



MILES COMMUNITY COLLEGE

SCHEDULE OF GRANTS AND CONTRACT EXPENDITURES

YEARS ENDED JUNE 30, 1986 AND 1985

(Page 2 of 2)

<u>Grant</u>	<u>Authorized</u>	<u>EXPENDITURES</u>	
		<u>1986</u>	<u>1985</u>
<u>State Grants</u>			
Adult Basic Education	\$ 7,930	\$ 7,930	\$ -
Adult Basic Education	7,930	-	7,930
Career Development for Displaced Homemakers - HB 400	8,800	7,460	-
Career Development for Displaced Homemakers - HB 400	8,800	-	8,661
Career Development for Displaced Homemakers - JTPA	38,446	36,515	-
Career Development for Displaced Homemakers - JTPA	34,710	-	32,330
State Student Incentive Program	10,180	10,180	-
State Student Incentive Program	13,045	-	13,045
State Work Study	4,682	4,682	-
State Work Study	5,990	-	5,990
Coal Board CCEC	119,235	-	43,566
MAC Coal Grant	35,000	-	35,000







# MILES COMMUNITY COLLEGE

2715 Dickinson

MILES CITY, MONTANA 59301

Telephone (406) 232-3031

December 24, 1986

Charles Bailly & Company  
First National Bank Building  
Suite 425  
Great Falls, MT 59401

Following are our responses to the recommendations that you have included in the audit report for Miles Community College:

## RECOMMENDATION

- 1) Concur.
- 2) Concur.
- 3) Concur.
- 4) Concur. Federal cash on hand has been reconciled and adjustments made on the 09-30-86 "Report of Expenditures."
- 5) Concur. We are currently assessing our anticipated funding needs to determine exactly how much should be returned.
- 6) Concur. We are currently contacting our billing agency/fund depository to arrange a suitable investment account.
- 7) Concur.
- 8) Concur. We are currently seeking "closing" status for NSL.
- 9) Concur. The College is in the process of acquiring software to remedy this recommendation.
- 10) Concur. Prior audit adjustments were difficult to follow. These will be posted.
- 11) Concur. Although specific notation was not in the Board Minutes, it was included as an item in the year-end budget balancing process, which was reviewed and approved by the Trustees.

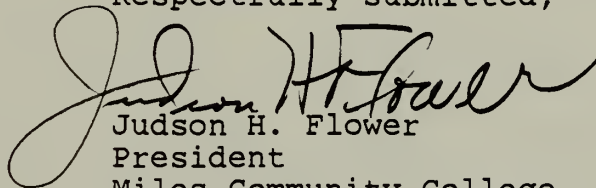


Charles Bailly & Company  
December 23, 1986  
Page 2.

12) Concur. Extra care will be taken to insure that the hard copy reports are not misplaced. In addition, a back-up copy of all reports will be maintained on flexible disk and stored in a fire-proof vault.

13) Concur. As of Fall, 1986 hard copy class lists verifying all data on the enrollment report are prepared and stored as permanent records. In addition, all files used to generate these reports will be backed up to flexible disk and stored permanently in a fire-proof vault.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Judson H. Flower". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

Judson H. Flower  
President  
Miles Community College

JHF:ss





